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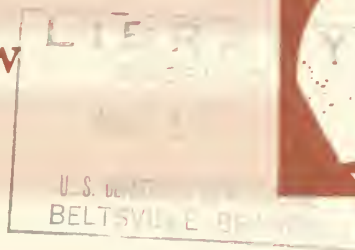
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THE FAR EAST AND OCEANIA

AGRICULTURAL SITUATION

MIDYEAR REVIEW



FOOD IMPORTS UP, EXPORTS DOWN IN 1966

Imports of food by the countries of East and South Asia are at record levels in 1966. The disastrous drought in India in 1965, and consequent shortfall in food production, was the major factor in greatly expanded import requirements in 1966. Food grains made available on concessional terms--largely from the United States but also from several other foreign countries--are meeting most of the import requirements. India's total food grain imports in 1966 are likely to reach 11 million tons; the previous record volume was 7 million in 1965. Mainland China has switched in the past few years from being a net exporter of food grains to become the world's largest cash market for food grains. Japan, which must normally buy abroad about a fifth of its total food supply, is importing record amounts of food and other agricultural commodities in 1966. South Vietnam's rice import requirements have reached a new high this year.

Exports of foodstuffs from countries of the region are down substantially in 1966. Australian export availabilities have been substantially reduced by widespread drought in that country. Burma has dropped from first to third place as a rice exporting country and the downward trend in supplies available for export continues. South Vietnam within the past 2 years has switched from a substantial net rice exporter to a substantial importer. Thailand's and Cambodia's rice exports are expected to be lower in 1966.

The weather situation in the Far East and Oceania up to mid-1966 would indicate that crop prospects in general are no better than normal and probably slightly below normal. As of July 1966, the monsoon situation in India appeared considerably more favorable than in the previous year and approximately normal harvests may materialize. In Mainland China, weather conditions to date would indicate a crop little if any better than in the past 2 years. Due to drought in Australia, total farm production is expected to be below the average of recent years. In Indonesia the weather has generally been very favorable; that country may again harvest a record rice crop.

Gains expected in gross national product in most countries will come largely from industrial rather than agricultural expansion. Major gains in GNP are expected in Japan, South Korea, Taiwan and Thailand. Little or no gain in GNP is anticipated in 1966 for India, Indonesia, Burma, Cambodia and Laos. Most other countries of the region fall somewhere between. Almost all governments of the region are devoting considerable resources to economic development. Many are depending heavily on financial help from abroad. As the gap between food production and consumption requirements widens, increasing attention is going to agricultural development.

The general economic situation in the last quarter of 1965 and during the first quarter of 1966 showed considerable improvement after a recession period of several months. Consumer prices and urban wages increased substantially in 1965 and are continuing upward in 1966. The budget for the fiscal year that began April 1, 1966, provides for an 18 percent increase in government spending. An \$850 million tax cut and \$3 billion bond issue have been announced to further stimulate the economy. A surplus of foreign exchange of \$240 million from trade transactions was reported for the first quarter of 1966.

Total farm production is expected to be about 4.5 percent above 1965. The total output of food crops is expected to be up about 3 percent. Most of the increase will be in rice, fruit, and spring vegetables. Output of livestock products may be as much as 8 percent above last year.

Rice areas are not expected to vary from 1965; yields are expected to be up. The 1965 crop, which amounted to 11.3 million metric tons (milled basis), was the smallest in 7 years but still accounted for over 90 percent of consumption requirements. The planted areas of wheat and barley are down about 10 percent from 1965 levels.

Production of most fruits and spring vegetables is expected to increase in 1966/67, but early forecasts indicate that fall and winter vegetables may decline. Outputs of rapeseed and soybeans also are expected to decline sharply as the result of greatly reduced acreage.

The outputs of milk, eggs and broilers are expected to increase significantly in 1966/67 in response to greater consumer demand. However, beef cattle numbers have declined sharply in 1966. Both the beef and dairy cattle industries are suffering from rising costs of production, inadequate marketing facilities and the continued scarcity of farm labor in most rural areas. The limited supply and high prices of beef, particularly at the retail level, have caused some diversion to consumption of pork and poultry meats. Feed grain requirements continue to increase to meet the demands of expanded domestic output of pork and poultry products.

In continuation of the Government's controlled marketing of dairy and other livestock products, ceiling prices have been set for 1966 on butter, nonfat dry milk and pork. A semigovernmental organization, the Livestock Industry Promotion Corporation (LIPC) is authorized to buy, sell and import dairy products, pork, beef and poultry meats in order to stabilize prices when necessary.

The shortage of beef supplies and scarcity of beef breeding stock resulted in increased import quotas for beef as of the end of 1965. Continued leniency in imports of beef and breeding stock is expected during 1966. The Ministry of Agriculture and Forestry has adopted a 3-year plan to increase cattle numbers, beginning with the 1967 fiscal year. The plan provides for establishment of new breeding centers and direct loans to farmers for the purchase of breeding animals.

The Government's policy of subsidizing the School Lunch Program now emphasizes the use of domestic fluid milk rather than nonfat dry milk. Imports of U.S. nonfat dry milk for this program will gradually cease.

The market for U.S. agricultural commodities has continued to increase in 1966. Total Japanese imports of U.S. farm products for the calendar year 1965 amounted to \$966 million, c.i.f. basis--an increase of 20 percent over 1964. The most important

commodities imported from the United States in calendar years 1964 and 1965 were wheat, corn, cotton, soybeans and milo. Imports of farm products from the United States are expected to exceed \$1 billion in 1966.

During the first 4 months of 1966, Japanese imports of 19 selected agricultural commodities from the United States totaled \$323 million, c.i.f. basis, compared to \$276 million during the same period of 1965. This was an increase of 17 percent. Most of this increased trade consisted of larger imports of U.S. milo, wheat bran, tobacco, cattle hides and skins, soybeans, and poultry products.

Imports of wheat for the calendar year 1965 totaled 3.6 million metric tons, an increase of 1 percent from the previous year. Increased imports of wheat are planned for the fiscal year that began April 1, 1966. The United States supplied 54 percent of the 3.6 million metric tons of wheat imported in 1965. This compares to 46 percent in 1964. Japan and Canada signed a purchase contract for wheat in February 1966. The terms of the agreement provided for a purchase of 450,000 metric tons of wheat to be delivered during April-July 1966.

SOUTH KOREA

The South Korean economy performed well in 1965 and the first half of 1966 with outstanding success in some sectors. Total GNP rose by 8 percent in 1965, spurred by a 17 percent increase in industrial output. Agricultural production was restricted by the worst weather in a decade, but the 1965 harvest for most crops was equal to or higher than the average for the 1960s. Exports jumped 48 percent from 1964 to a record value of \$184.5 million in 1965. This was more than double the export value of 1963 and reflects the success of Government policy creating export incentives, credit preferences, interest rate subsidies, tax exemptions and privileges on import of raw materials used to produce exports. Imports peaked also, however, with an increase of 11 percent to a total value of \$450 million.

In 1965 a prolonged period of drought was followed by heavy rains and the worst floods in this century. In spite of this, Korea produced 3.5 million metric tons of paddy rice, only about 330,000 metric tons less than expected. In October 1965, Japan agreed to purchase 38,000 metric tons of paddy and 22,000 metric tons of milled rice at the highest price ever paid for Korean rice. No official estimates for the 1966 crop have been received, but it is generally conceded that the coming harvest will exceed 1965's production.

Wheat slipped from a 1964 high of 167,000 metric tons to 122,500 metric tons in 1965 and corn increased from 35,000 tons to 40,000 metric tons. Sweetpotato production set a record in 1965 with 1.1 million metric tons, almost 200,000 metric tons higher than the previous year's production.

TAIWAN

Continued strong growth patterns are evident in all sectors of Taiwan's economy. During 1965 agricultural production increased 6 percent and industrial production jumped 16 percent. Exports expanded by 3 percent and imports jumped 33 percent. Largely as a result of falling prices, earnings from sugar--the Island's leading export--declined by \$69 million. The overall balance of goods and services registered a surplus of \$2.2 million in 1964, but a deficit of \$103 million was reported for 1965. The economic outlook is bright, however, and foreign industrial capital is being attracted.

Taiwan's foreign exchange position is strong--reserve holdings of \$288 million at the end of first-quarter 1966 were double those of 1963's first quarter--and a noticeable shift in Taiwan's ability to replace concessional purchases of U.S. agricultural products with dollar purchases is becoming evident. In 1963, Taiwan's dollar purchases represented 26 percent of total imports of U.S. agricultural products worth \$71 million. In 1965, dollar purchases climbed to 47 percent of U.S. agricultural imports totaling \$74.3 million.

Paddy rice production set a new record in 1965 with a harvest in excess of 3 million metric tons. Taiwan's remarkable success is due chiefly to adequate supplies of fertilizer, well-developed irrigation facilities, ample credit, stable prices and a high level of technology. Per hectare yields were the highest in Taiwan's history. Exports totaling 250,000 metric tons--all to Japan--earned an estimated \$40 million. The first crop of 1966 is already in the ground and, with an increase in planted area and ideal weather during the transplanting season, the outlook for rice in 1966 could hardly be brighter.

Centrifugal sugar production decreased slightly due to unusually warm winter weather in 1965 and is now estimated at 980,000 metric tons. Continued low prices will produce further declines in production as farmers are shifting to more remunerative crops.

Typhoons damaged portions of the 1965 pineapple crop and production was down almost 10 percent from the previous year's high. Banana production, however, increased 76 percent to a record total of 440,000 metric tons. Eighty percent of this crop, worth an estimated \$58 million, went to Japan. Preliminary figures indicate that 1966 banana production might increase 25 percent.

Most other crops registered increases in 1965 and with good prices and near ideal weather during the first quarter of 1966, the agricultural outlook for Taiwan is bright.

HONG KONG

The economy of Hong Kong continues to expand in 1966. However, the rate of growth, which was slowed by financial adjustments in 1965, may not equal the rapid expansion of the 1959-64 period when the gross domestic product increased annually at an estimated 12 to 15 percent. Little change has been noted in the agricultural sector. Expansion in plastics and tourism has offset some decline in other industries. Labor shortages continue but are not critical.

Two trade developments are noteworthy. First, during the latter part of 1965 the pattern of exports indicated an increasing dependence on the United States as an export outlet for Hong Kong's manufactured goods. Second, early trade returns during the first quarter of 1966 indicate some leveling off of imports of food and other farm products from Mainland China.

THE PHILIPPINES

A strengthened rice and corn law, designed to encourage increased food production, was the first major bill to pass Congress following the inauguration of President Marcos. As an incentive to farmers to grow more staple grains, the measure lifts the floor price of unhusked rice for Government purchase from 12.50 pesos to 16 pesos (from \$3.20 to \$4.10) per sack of 44 kilograms, and the price of shelled corn from 9 pesos to 13 pesos per sack of 56 kilos.

Government subsidies to farmers are expected to sharply stimulate the purchase and use of fertilizer in 1966. The opening of a large U.S.-built plant and the improvement of facilities at three existing plants should assure an adequate supply.

Measures to ease credit, to clamp down on smuggling and cheating on customs declarations, and to refinance selected industries considered essential to the national development gave a lift to the general economy.

With generally favorable weather, some new irrigation facilities, and wider use of improved cultural practices, the calendar year 1966 rice crop is forecast 6 percent greater than the previous year's output. Corn, plagued by floods in the principal growing area, is expected to be down slightly from the year before.

Despite the good prospects for domestic rice, the National Economics Council forecast a shortage and in early 1966 recommended foreign purchase of 200,000 metric tons. Although the deficit was expected to amount to only 50,000 tons in the weeks just before the autumn harvest, the NEC urged import of another 150,000 tons to discourage rising prices. The production of corn probably will be adequate for human consumption but the NEC approved 200,000 tons for import as feed for the burgeoning livestock industry. The United States is the most likely source for most corn imports; nearby Asian countries are expected to supply most of the rice.

Ideal growing conditions late in the year permitted copra production in the last half of 1965 to increase enough to offset the losses of the first 6 months. Total production for the year probably exceeded the outstanding level of 1964. With good weather, the 1966 harvest could be as much as 15 percent higher.

Coconut products, the Philippines' most valuable foreign trade items, did well in 1965. Registered exports of copra were 873,000 metric tons, up 6 percent from 1964. Shipments of 234,000 tons of coconut oil were about 2 percent higher than in 1964. Gains in foreign sales of desiccated coconuts approximately balanced declines in copra cake and meal. Average annual wholesale prices of both copra and coconut oil were up about 15 percent in 1965 from 1964. Shipments in the first 4 months of 1966 were up sharply.

Two supplementary allocations added 220,000 tons to the Philippine sugar quota in the high-paying U.S. market. With a sharp drop in production anticipated in 1966, however, there is some question whether the enlarged quota of 1.28 million tons and domestic requirements of about 600,000 tons can both be met.

Exports rose by approximately \$25 million in 1965, but extraordinary foreign purchases of 575,000 metric tons of rice to keep consumer prices low largely accounted for a continued unfavorable foreign trade balance. The United States remained the leading market and supplier but its share of both exports and imports declined.

INDONESIA

After years of neglect, the economy of Indonesia dipped to a new low in the early months of 1966. Inflation gathered speed with the cost of living tripling in the first quarter. Exports fell to less than \$60 million from approximately \$115 million a year earlier. Imports fell, too, and the shortage of raw materials and spare parts forced many factories to cut production nearly to the vanishing point, or to close.

Most damaging was the near exhaustion of foreign exchange and the snowballing inability to pay off overseas obligations when due. The total foreign debt is \$2.4 billion.

In arrears at the end of 1965 were interest and capital retirement payments of more than \$100 million. An additional \$400 million, more than the foreign exchange receipts expected from all exports this year, fall due in 1966.

As default followed default, nation after nation withheld new credits and restricted use of existing agreements. Then, in March, a new group took over control of the Indonesian cabinet. Soon after, Japan reinstated a \$30 million guarantee of commercial yen credits for purchase of emergency supplies and equipment. Japan also undertook efforts to assemble a meeting of creditor nations to refinance Indonesia's external debts.

Early policy decisions by the new cabinet were designed to bring about increased production of food and clothing. Priority was placed on the import of raw materials, especially cotton, and spare parts for the mills and fertilizer for the farmers.

Although a dry January and February worried agricultural officials and farmers alike, unusually heavy rains in March paved the way for a late but bountiful rice harvest which may surpass the record of 1965. Early in 1966, substantial shortages were reported in the big cities. The shortages were attributed to drastically curtailed imports in 1965 and a near-paralysis of transportation service from surplus production areas.

The new cabinet leadership initiated a worldwide search for rice at the easiest terms possible. The United States authorized a long-term credit for the purchase of 50,000 metric tons; Burma allotted 100,000 tons, but terms of payment were not immediately settled; Pakistan donated 5,000 tons and promised another 20,000 tons at a concessional rate; and Thailand shipped 20,000 tons--with no terms announced.

The output of rubber in 1965 was believed well above the recent average and the volume of exports was the highest in a decade. However, total value of the shipments probably declined because of Indonesia's tight boycott of skilled Singapore processors as part of its confrontation-with-Malaysia policy. Most of Indonesia's loss of \$50 to \$60 million in first-quarter 1966 exports may have resulted from a shift of Mainland China's rubber purchases from Indonesia to Singapore and Malaysia. Mainland China bought 35,000 tons of Malayan rubber in the first 3 months of 1966--in sharp contrast to no purchases in the corresponding months of 1965.

Production of crude oil and mineral products appear to be rising substantially. Several small, foreign-financed plants have been opened. Probably most important to the economy is one to manufacture asphalt, sorely needed for the Government's high-priority highway improvement program.

SOUTH VIETNAM

Agricultural production was down in 1965; military operations continue to impinge upon farm production and economic stability in 1966. To curb inflation, the South Vietnam Government on June 18 replaced the multiple exchange rates with a single effective exchange rate of 118 piasters to the U.S. dollar. This represents a devaluation of about 50 percent. This and other measures of the South Vietnam Government are expected to cause some hardship during the summer months, but should lead to greater stability and lower prices for essentials by September or October.

Paddy rice production in 1965 is estimated at 4.8 million metric tons. This represents a 7 percent decrease from the previous year's harvest, and a 5 percent drop from average production during the 1960s. Production in the rice-rich Delta region, which traditionally provides 75 percent of total rice production, slipped 6 percent in each of the past 2 years. Per hectare yields in 1965 increased over previous harvests in 50 percent of all provinces, but decreases in other provinces pulled the

national average yield down. This year, the amount of land planted in rice is down; the area harvested will vary according to the severity of hostilities.

In 1965 South Vietnam imported 175,000 metric tons of U.S. rice under P.L. 480, plus 50,000 tons from Thailand. Rice production is expected to decrease during 1966 and 300,000 tons of U.S. rice has already been authorized for shipment under P.L. 480. Other agricultural products authorized under P.L. 480 for shipment to South Vietnam include 62,000 metric tons of wheat flour and 90,000 bales of cotton.

A fertilizer factory capable of producing 48,000 metric tons of ammonium sulfate and 42,000 tons of urea annually is under construction in Quang Nam province. Lack of security has slowed construction and South Vietnam must continue to import all chemical fertilizers. Storage, transportation to rural areas, and delivery to individual farmers continue to be problems and fertilizers frequently fail to arrive in time for proper use.

MALAYSIA AND SINGAPORE

Malaysia will spend \$1.5 billion in 1966-70 in possibly the most comprehensive development project yet begun by a newly emerging nation. Economic planners have committed almost 25 percent of this money to direct improvements in the agricultural sector over the 5-year period. Additional large overall expenditures for roads, communications, utilities, education, health and social services point up the emphasis placed on aid for rural areas.

Driving full speed towards its priority goal to attain self-sufficiency in the production of rice, Malaysia early this year signed a \$20 million contract with a Japanese firm for construction of dams, reservoirs, and tunnels for the vast Kuala Muda irrigation complex. A \$45 million loan recently was granted by the World Bank (IBRD) to help finance the project estimated at a total cost of more than \$70 million. The project will provide water for a single rice crop on some 100,000 hectares and for a second crop on more than half the area.

Other outlays in the agricultural sector will subsidize purchase of fertilizer, extension of the crop area and the planting of improved strains of rubber, oil palm, coconuts, citrus, bananas, corn, pineapples and coffee. Emphasis will be placed on teaching and demonstrations to encourage more efficient cultural practices, double-cropping, intercropping and diversification of crops.

Both Malaysia and Singapore continue to open new industrial establishments and to protect their output from foreign competition with the enactment of stiff trade regulations. On the grounds that Mainland China was dumping goods at extremely low prices, Malaysia recently completely banned further imports of a large number of products as diverse as bicycles and socks. Singapore has set low quotas on imports, regardless of source, of items such as sweetened condensed milk, wheat flour, plywood, electric bulbs, and auto and scooter tires. On the other hand, Singapore continues its struggle for higher U.S. quotas for cotton textiles and garments.

Revised estimates set the 1965 rice harvest at a new high, 23 percent above the mediocre 1964 crop and 7 percent above the previous record set in 1963. The production rise resulted from an expansion of the area double-cropped and increased use of fertilizer made available through Government subsidies. Despite uneven rainfall, the distribution of improved seeds and increased support prices are expected to hold the 1966 rice harvest at or near the high 1965 level.

The production of rubber, Malaysia's main money crop, reached a new record in 1965 with a total output of 910,000 long tons, up more than 50,000 tons from 1964. The gain was attributed to widespread replanting of higher yielding varieties. With more high-yield trees steadily reaching maturity, another advance in production is anticipated in 1966. Gross exports of rubber from the States of Malaya and Singapore reached 1,025,000 long tons in 1965, about 45,000 tons over the 1964 mark.

The output of palm oil in 1965 climbed 21 percent from 1964, double the expected increase. Palm kernel production was up 15 percent. These advances reflected the Government program to reduce its economic dependence on rubber by promoting diversification of crops. Another increase in production is anticipated in 1966.

Exports of palm oil from the States of Malaya and Singapore in 1965 were estimated at 140,000 tons, about 15,000 tons above the previous year. Exceptionally high prices for palm oil from April through September boosted the London average for the year almost 15 percent above the 1964 level.

Combined total exports of the States of Malaya and Singapore in 1965 climbed to \$1,427 million from \$1,278 million in 1964. Imports rose more slowly and the unfavorable trade balance of \$160 million in 1964 was cut to just over \$100 million in 1965.

Although Malaysia and Singapore imposed a number of tariff restrictions against each other following their political separation last summer, total trade between the two increased 6.5 percent in the 7 months from September 1965 through March 1966.

THAILAND

Generally sound fiscal and financial policies continue to guide Thailand's economy, and increasing attention to agricultural assistance programs indicates a rise in total farm output for 1966. Two new Five-Year Plans currently being developed are designed to double GNP within the next 10 years. The first plan, beginning in October 1966, picks up at the termination of the current Six-Year Plan. Preliminary reports are that these plans will sponsor acceleration in the industrial sector, improved balance between agriculture and industry, diversification of crops and a more equitable distribution of wealth. Performance during the past decade indicates that the goals are within Thailand's range of potential achievement.

Paddy rice production for 1965 is officially estimated at 9.6 million metric tons, about the same as the 1964 harvest and 580,000 tons less than the 1963 record. A harvest of 10 to 10.5 million tons of paddy is anticipated for 1966.

Final rice exports for 1965 are given as 1.9 million metric tons, slightly above 1964. Heavy foreign demand and moderate international supplies of rice during the first quarter of 1966 drove Thai domestic and export prices to a new 4-year high. Government efforts to reduce rice exports with expectations of stabilizing domestic prices have been partially successful, and it is hoped that rice prices will recede and only slightly top those of 1965.

Kenaf production for 1965 is estimated at 320,000 metric tons, an increase of 33 percent from the 1964 harvest. Corn registered a 10 percent increase, and is recorded at 1.1 million tons for 1965.

Because of low prices, farmers reduced by 30 percent the sugarcane crop of 1965. As prices are continuing low, future crops are expected to be significantly smaller. Government goals are for production of 180,000 metric tons of sugar in 1967 and 1968, compared to 286,000 tons in 1965.

The combined 1965 production of seven principal oilseeds--coconuts, peanuts, castor, soybeans, sesame, cottonseed and kapok seed--dropped 5 percent to 470,000 metric tons. However, acreage increases of 40 percent for soybeans and 14 percent for cotton are estimated for 1966. This combined with little or no acreage changes for the other oilseeds should result in an increase in total production this year. A recent Japanese offer to buy all available Thai oilseeds is the spark behind increased plantings.

Sorghum, bananas and oriental leaf tobacco are three relatively new exports which are expected to contribute increasingly to foreign exchange earnings in future years. Sorghum, which has little or no Thai domestic use, increased from a 1964 harvest of 13,000 tons to an estimated 40,000 in 1965. Again, recent Japanese offers to purchase unlimited supplies has sparked farmer interest and a 1966 harvest of 200,000 metric tons is forecast. Banana production has increased during recent years and trade reports indicate that 1966 exports to Japan alone will reach 10,000 tons with a value of \$2 million, nearly three times the 1964 level. Thailand in 1965 for the first time exported oriental leaf tobacco, a new crop that grows well in the Northeast region.

INDIA

The Fourth Five-Year Plan began on March 31 of this year with neither solidly fulfilled Third Plan targets nor solid promises of large-scale long-term aid to build upon. Consequently, attention has been devoted primarily to raising agricultural yields in 1966/67 in order to get the economy back on its feet. The food grain target for next year has been set at 95-97 million metric tons, an increase of more than 25 percent. Some 16 percent of the central government's total budget for 1966/67 has been allocated for agricultural programs, community development, and the cooperative movement. This compares to 13 percent in the Third Plan years.

At the center of the agricultural program is a plan to bring 6 million acres of selected land under intensive cultivation with high-yield varieties of rice, wheat, corn, sorghum and millets. This program is expected to yield an additional 4 to 5 million tons of food grains in 1966/67. Even so, the overall target of 95-97 million tons is based on the following rather heroic assumptions: That rainfall is normal; that 1 million tons of nitrogenous fertilizer can be procured, though domestic capacity is currently only 400,000 tons a year; that hybrid seed is in adequate supply, which is still in doubt; and that more pumping sets for existing tubewells can be procured.

An inadequate supply of fertilizer is a major obstacle to fulfillment of agricultural production targets in 1966/67. Government policies to encourage foreign investment in fertilizer plants have been reaffirmed, and considerable interest has been displayed by foreign companies. However, increased requirements in the immediate future will have to be met primarily through imports.

In the industrial sector, shortage of imported raw materials, hydroelectric power cuts due to the drought, and dislocations caused by the dispute with Pakistan lowered the rate of growth in 1965/66. Because of foreign exchange difficulties, a policy of import substitution and export promotion is followed. Export policy emphasizes production of consumer goods in the hope that India can capture a corner of the growing world market. Government licensing, price fixing, import control, and other restrictive measures have produced an unfavorable investment climate, however, and an exportable surplus of manufactures is not growing as planned. Furthermore, it has not been possible, nor would it have been beneficial to the economy as a whole, to reduce the total volume of imports.

This situation has led to a drastic deterioration in India's foreign reserve holdings. In May, reserves plunged to an all-time low of \$386 million. This was followed by devaluation of the rupee on June 6. The rupee was pegged at 7.5 to the dollar, a 36 percent devaluation from the pre-existing rate of 4.76 to the dollar. This action, plus subsequent easing of import restrictions on raw materials for industries producing exports and essential commodities, should stimulate both increased exports and import substitution. It is substantial indication of a serious desire in India to tackle the balance-of-payments problem.

Production of food grains in the drought-stricken year 1965/66 is estimated at 74.5 million metric tons, compared with the record outturn of 88.4 million in 1964/65. Late winter rains in the North helped the wheat crop, which is now estimated at 11.5 million metric tons, only 600,000 tons below the previous record. The rice crop estimate, however, now stands at 30.6 million metric tons of milled rice, down 8.1 million from the previous year. With the exception of corn, which is estimated to total slightly more than last year's 4.6 million tons, production of all coarse grains is estimated at levels below last year. Sorghum and millets probably fell about 21 percent to 14 million metric tons. In addition, the supply of edible oilseeds is tight. Peanuts alone were down by 1.7 million metric tons, and total oilseed production is estimated at 6.5 million metric tons, down 24 percent from 1964/65.

Production of jute goods was at an all-time high in 1965/66. The situation has altered, since jute output last summer was lower than originally estimated, at 814,000 metric tons. Imports of Pakistan jute, and transport of Indian jute from Assam to Calcutta mills, have been interrupted as a result of the dispute with Pakistan. Because of the tight supply, monthly consumption of raw fiber by mills is being reduced to 90 percent of the average monthly consumption in 1965. Prospects for this summer's crop are already slightly dimmed by drought in West Bengal, which has delayed early jute plantings.

The 1965/66 cotton crop, except for the Bengal Deshi variety, suffered from the drought and fell to 978,000 metric tons, 89,000 tons below the previous year. Both imports and exports are lower than last year, and mill consumption of cotton was reduced because of accumulated stocks of yarn and cloth.

The severe drought conditions of 1965/66 have caused considerable concern for the welfare of the Indian people. An estimated 46.6 million people have been affected by scarcity conditions spread over 117 districts in seven states. The situation, however, does not appear to be as desperate as originally feared; timely deliveries of P.L. 480 grain and other foreign grain to India, and concerted efforts on the part of the Indian Government to distribute existing supplies equitably, have led to a relatively satisfactory food supply situation. Internal redistribution programs, however, have not worked as well as had been hoped because of hoarding in surplus states and the consequent inability of both the states and the central Government to fulfill their procurement targets. Fixed purchase prices on all grains probably will have to be raised next year, if there is to be any hope that procurement goals will be met.

The current weather situation in India has led to high hopes for good summer and fall harvests, although it is not yet time for unqualified optimism. Spring rains in the Northeast rice and jute areas were late starting. Assam has not received enough to insure good crops, although in some areas there has been too much, with consequent flooding. In West Bengal, Bihar and Orissa the drought has not been adequately relieved. Elsewhere in the Northwest and Southern regions, rainfall has been almost normal for the pre-monsoon season, although in Gujarat and Madras, as well as in Orissa, much will depend upon the timely arrival of the full monsoon.

Total imports of food grains in India during the first quarter of 1966 amounted to 2.1 million tons, compared to 1.7 million in the first quarter of 1965. In April arrivals reached 1.4 million tons. Imports of food grains from the United States alone probably will rise to 9 or 10 million tons by year's end, in contrast to 7 million in 1965.

PAKISTAN

The signing of the Tashkent Declaration in mid-January and subsequent bilateral pledges of aid from Consortium and other countries, amounting to some \$400 million by the end of the first quarter of 1966, have revived confidence in Pakistan that the economy will soon reestablish itself at the pre-hostilities level.

In spite of this, the economic dislocations caused by the conflict have not been resolved: rail, air, road, and river services between Pakistan and India are still interrupted; seized properties, ships, and cargoes have yet to be released, and trade relations with India have not been reestablished. A shortage of industrial raw materials persists as import restrictions make foreign exchange scarce outside defense and export-oriented industries.

Despite military spending, investment has probably dropped by more than 15 percent since the conflict began. A better than anticipated performance in agriculture has offset this to some extent, and an overall rate of growth around 4 percent may therefore be expected in 1966. The yearly average was 5 percent during the Second Plan.

The foreign exchange position has vastly improved since its record low of \$207 million in October, because of the policy of zealous export promotion combined with stringent import control. By the end of March, total reserves stood at \$279 million.

The reduction in planned domestic development expenditures in 1966, because of the emergency last autumn, will be felt strongly by the agricultural sector. In addition, the rural works allocation was cut from 27.6 percent to 21.9 percent of total development expenditures. The results of these two cuts probably will be long-range. This year, however, despite a drought in West Pakistan in December and January, the agricultural sector probably will grow at a faster rate than the 2.4 percent estimated in early February. Late winter rains in the Punjab improved the wheat crop, which is now estimated at 4.1 million metric tons, half a million tons below the record crop of 1965. The output of paddy rice has remained substantially unchanged since last year, at an estimated 16.8 million metric tons.

Other food grains of importance include jowar (sorghum) and bajra (millet), both of which have reversed their 1961-65 uptrend in production by dropping 6 percent in the case of jowar and 17 percent in the case of bajra in 1965/66. Acreage of bajra also decreased, though only by 8 percent, whereas jowar acreage increased by 2 percent. The supply of edible vegetable oils, from domestic production and imports, was at its lowest point in recent years. Production fell from 101,000 metric tons in 1964/65 to 97,000 metric tons in 1965/66, although the demand increased due to urbanization and higher incomes. Prices have risen; demand is unmet.

Despite economic disruptions, Pakistan's exports probably will exceed the planned growth rate of 9.5 percent in 1966. In the 9 months preceding March 1966, total exports were 13 percent above the year before. Jute exports rose, despite loss of the Indian market, and the price of raw jute increased. Cotton exports are up, and rice, after an initial downturn, is about to expand tremendously under agreements to sell 90,000 tons of superior grade Basmati rice (valued at \$19.6 million) to Kuwait and 85,000 tons to the Soviet Union. President Ayub predicts that commodity exchange agreements with socialist countries, for superior varieties of rice alone, will jump from a value of \$17.9 million in 1965 to \$52.5 million this year.

Imports of wheat during first-quarter 1966, under P.L. 480, Title I, totaled 100,000 metric tons, in contrast to 335,000 metric tons during the same period in 1965. For the first time, Pakistan also made two cash purchases of wheat from the United States to fulfill its usual marketing requirements. These totaled 79,000 metric tons.

Pakistan is making every effort to expand its network of trade connections by trade promotion in new markets. The Export Promotion Bureau has sponsored delegations to or made new trade agreements with several Middle Eastern and East European Countries, and has been exploring trade possibilities with Mainland China and countries in Africa and Latin America. The American share of the market declined somewhat during the first part of the year, but with the resumption of aid probably will move back to occupy about 40 percent of the total.

MAINLAND CHINA

Persistent drought in a large portion of the North China Plain limited the summer harvest by reducing the area sown to winter wheat. This may have been a major consideration by the communist regime in deciding to buy 4.6 to 7.6 million tons between August 1966 and July 1969 in the recent trade negotiations for wheat with Canada. The agreement for the previous 3 years was for 3.0 to 5.1 million tons.

The area of winter crops grown for food, particularly miscellaneous grains in the Yangtze River Valley, was reduced. This occurred because of a claimed 50 percent increase in the area of green manure crops in an effort to raise the fertility of the rice land. In some areas, the lateness of the harvest last fall precluded the sowing of some winter food crops.

The remainder of Mainland China has had reasonably favorable weather. Short but intense waves of cold weather in February and again in April, together with excessive rain in parts of South and Central China, resulted in some rotting of rice seedlings; but losses appeared no more serious than in previous years. The water conservancy campaign during the winter months apparently was the broadest in scope in recent years, and some long-term irrigation projects were completed. In areas with available irrigation, spring crops apparently did well.

Higher production of winter wheat in Szechwan Province, in certain areas of Northwest China, and in parts of the winter wheat area south of the Yellow River should offset some of the acreage losses and lower yields in the area of winter wheat affected by the drought north of the Yellow River. The production of other winter grains may turn out to have been no better than last year because of reduced acreages, although yields should be up somewhat. The net result of the harvest of winter grain crops and the early rice crop--referred to in Mainland China as the summer harvest--may be no better and may be less than in 1965 when the harvest was smaller than in the previous year.

A claimed increase in early rice acreage, if true, would have been at the expense of acreage of sweetpotatoes, sugarcane, sesame, tobacco, soybeans, and intermediate rice.

The sown area of cotton likely was expanded in line with Government policy, and much attention has been given to increasing the acreage of corn and kaoliang (millet).

Unless the summer harvest of grains turns out better than last year, which appears doubtful, any increase in crop production in 1966 will have to come from increased harvests later in the year. Thus the crop situation is somewhat similar to that of last year. Production from last year's late crops was not sufficiently large to overcome the shortfall of the summer harvest. If there is to be more food available it must come largely from the private sector, which is already producing near capacity, or from

imports--and the Government is encountering increasing difficulty in purchasing foreign grain for the 1966/67 consumption year. Based on advanced purchases of grain to date for delivery during 1966/67 and the poor prospects for additional purchases from countries other than Canada, imports of grain are expected to be substantially less than the 6-million-ton average during recent years.

NORTH VIETNAM

The agricultural situation in 1966 appears no better than in 1965. It may even be worse. North Vietnam's first Five-Year Plan ended unsuccessfully in 1965. As stated in the communist newspaper Nhan Dan, in Hanoi, February 27, 1966, "The production of food-stuffs in general and animal husbandry in particular,... during the past several years, ...have not kept up with the needs of the State and of the people." The country continues to import food products, and it is probable that imports of food, especially rice, in 1965 increased despite official claims of increased production in agriculture.

According to official statements, estimated rice production in 1965 was 4.5 million metric tons. This was 3.3 percent above the previous year and slightly above the 1960-64 average, but 10 percent less than the revised Five-Year Plan goal and almost 37 percent less than the original goal.

. The goal of a ratio of 70 percent rice and 30 percent subsidiary foods in the daily ration may have been close to realization, since much more emphasis has been placed on producing substitute foods. Since, according to official reports, the major portion of land reclaimed (320,000 hectares out of a plan of 550,000 hectares) during the first Five-Year Plan was in upland areas--less conducive to the production of rice--the ratio of subsidiary foods is expected to go even higher, especially for sweetpotatoes.

Although less information was provided on fulfillment in the livestock sector, there is ample evidence that livestock production fell short. By the end of 1965, even allowing the official claimed increase of 5 percent during the year, the estimated 4.4 million head of hogs was only 76 percent of the plan. Other livestock (water buffaloes and oxen) also fell short of goals.

The communist regime did not initiate a new 5-year plan but rather outlined in general terms the continuing tasks of solving the perennial food problem in a 2-year economic development plan (1966-67). Major aspects include intensified rice cultivation to produce 5 tons of paddy rice per hectare; increased production of secondary crops, especially sweetpotatoes; expanded animal feed production; increased production of vegetables and beans; intensified animal husbandry to attain two hogs per family; increased acreage of industrial crops, especially soybeans; and the extension of irrigation to 80 percent of the rice fields, 50 percent of subsidiary crop acreage, and 60 percent of the industrial crop area. The production and utilization of natural fertilizers and improved hand tools are to be increased. Collective farms are to be supplied with certain types of small machines (no description) to relieve labor shortages and agricultural chemicals are to play an increasing role in the fight against insects and crop diseases. The program of reclaiming additional farmland in the mountain areas is to continue by shifting delta dwellers to upland areas.

North Vietnam's agriculture got off to a slow start in 1966. Transplanting of the fifth-month rice crop (May-June harvest) was far behind as late as February. Unseasonably cold weather in April and insect infestation also contributed to smaller yields. Thus, this year's crop appears to be somewhat smaller than last year's good crop. Despite increased emphasis on increasing the acreage of subsidiary crops, particularly sweetpotatoes, the prospect for secondary crops appears little better than for rice. Because of delays in planting the winter-spring crops (fifth-month rice and subsidiary

crops), peasants had the added burden of preparing the land for the important tenth-month crop of rice while still harvesting the early rice crop and subsidiary crops, and many of the industrial crops. These problems have been further compounded by the labor shortage.

Since harvesting has the higher priority, there is likelihood of delays in planting the tenth-month crop, resulting in a harvest no larger than the below average tenth-month crop in 1965. This crop normally accounts for almost two-thirds of total rice production.

AUSTRALIA

Despite the reduction in farm output and decline in agricultural exports during 1965/66, prospects for Australia's economy continue favorable. Foreign exchange reserves, although somewhat below last year, are still at fairly high levels, primarily as the result of overseas capital investment. GNP continued to increase during the first half of 1965/66 but at a lower rate than during 1964/65. Although inflationary tendencies diminished during early 1966, some inflation may occur later in 1966 or early 1967 as the result of higher costs of farm supplies and services, and increases in minimum wage rates.

Gross value of farm production in 1965/66 is estimated at \$3.5 billion, compared to \$3.8 billion in 1964/65--a decline of about 9 percent. Wheat marketings were down 30 percent and export prices for sugar and wool were lower. Farm production volume in 1965/66 is currently estimated at about 10 percent below the level of 1964/65. Farm income in 1965/66 is expected to decline by about 30 percent to approximately \$1 billion, the lowest level in 8 years.

The serious drought which affected major agricultural regions of New South Wales and Queensland during the 1965/66 season was alleviated to some extent by satisfactory rains in Queensland in late 1965. Some rainfall also was recorded in New South Wales, but it came too late and was insufficient to promote pasture and crop growth. Wheat yields in New South Wales during 1965/66 have been estimated at less than 10 bushels per acre, the lowest since 1957/58.

Record wheat acreages have been planted but yields may be below normal because of the lack of sufficient rainfall, particularly in New South Wales--normally the leading wheat State. The rebuilding of pastures in both Queensland and New South Wales and the restocking of livestock numbers to the high levels of 1964/65 probably will not be realized for several seasons.

Although slaughter was up 5 percent from 1964, total meat production in 1965 was about equal to 1964 because of drought effects and lighter animal weights. Wool production is down about 9 percent in 1965/66 to 738,000 metric tons, while milk production was maintained at somewhat over 7 million metric tons, or at the 1964/65 level.

The shortage of food and water in some of the drier areas of New South Wales has necessitated slaughtering of breeding stock in addition to movement of some animals to areas where feed and pastures are plentiful. Shortages of breeding stock also are being felt in areas not suffering from drought.

Rice and cotton, produced in irrigated areas, made substantial gains during the 1965/66 season. Rice production continued its upward trend with a record output estimated at 170,000 metric tons. Cotton production is estimated at 80,000 bales, about double the 1964/65 harvest.

Special Government legislation has been introduced to provide long-term loans at nominal rates of interest for farmers whose incomes have been seriously cut by the drought. The Government's Reserve Bank, in cooperation with major private banking institutions, has established a new farm loan fund which will provide for longer-term credit financing to

farmers in an effort to encourage greater capital investment in new and existing farm properties.

The total value of agricultural exports for 1965/66 is estimated at \$1,975 million or 9 percent below 1964/65. Most of this decline is due to the lower volume exports of wheat, wool, meat and dairy products, and the sharp price declines for exported sugar and butter. Wool prices have tended to firm in recent weeks and prices of wheat and meat are expected to be higher than in 1964/65. These increases in prices will not, however, offset the decline in volume exports of meat and wheat during 1965/66.

It is estimated that wheat exports from the 1965/66 harvest will total 4.7 million metric tons as compared to 6.4 million tons last year. Wheat shipments for the first 4 months of the current marketing year beginning December 1, 1965, tended to be firm with about 29 percent of the total shipments destined for Mainland China, Australia's chief customer. This compares with about 43 percent of the wheat trade allocated to Mainland China during the same months of 1964/65. The second largest purchaser of Australian wheat this year has been the United Kingdom, which imported about 226,000 metric tons in the early months of 1965/66 as compared to 172,000 metric tons last year. Wheat exports to the Middle East areas have also been fairly large, with volume shipments slightly below the levels of 1964/65.

Exports of butter to the United Kingdom during 1966/67 will continue to be subject to the import quota system established by the U.K. Government in 1962. The import quota set for Australia's butter trade to the United Kingdom beginning April 1966 is 67,800 metric tons, the same as last year.

Favorable meat prices in the United States in recent months, as compared to prices in EEC countries of Western Europe, are expected to cause some shift in Australian exports from European to U.S. markets in 1966.

NEW ZEALAND

Significant growth is expected throughout the economy in 1966. It has been officially predicted that agricultural production will be more than 8 percent above last year.

The output of crops and pastures was particularly good during the 1965/66 season. Livestock numbers are at high levels, feed supplies are abundant, and higher than usual prices prevail for cattle and sheep. Emphasis is being placed on building up of livestock numbers, not only because of abundant feed supplies, but also as a part of the long-term Government policy for expansion of the livestock economy through 1973.

Dairy production continues to increase in spite of reported losses from shipments to the U.K. market. Total export earnings of all dairy products for the first quarter of 1966 exceeded last year's by about \$8 million. Emphasis is being given to expanded plant facilities for production of spray process milk powder. In the past 5 years, manufacture of skim milk powder in New Zealand has almost doubled.

For calendar year 1965, the United States was the third-ranking supplier. Of total U.S. exports to New Zealand valued at \$179.9 million, U.S. agricultural products accounted for \$6.7 million or about 4 percent.

Of particular interest to U.S. exporters during the 1966/67 season will be the import licensing restrictions applying to imports of certain fruits and nuts. Pains (stocks of which are reported to be down substantially from last year) are exempt from licensing. Oranges, however, are subject to individual import licensing application screening, while nuts and processed fruit items will either be embargoed or subject to various types of licensing restrictions.

OFFICIAL BUSINESS

New Zealand's present duty-free unrestricted access to the U.K. market has been extended. The meat agreement between the two countries which was to expire in October 1967 has been extended to 1972. Other agricultural commodities will be admitted free of duty into the United Kingdom until January 1970.

Although less meat was produced in 1964/65, exports during the 6 months October 1965-March 1966 totaled 268,000 metric tons, compared to 249,000 tons during the same period a year before. With a more favorable price situation in the United States, some of this increase in meat shipments was directed to the U.S. market, while exports to the EEC countries declined.

This report was prepared in the Far East Branch under the direction of Clarence E. Pike.

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